Accounting for Inflation in Timber Forecasts

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Inflation is misunderstood.

<table>
<thead>
<tr>
<th>Item</th>
<th>Average Actual (Nominal) Price ($)</th>
<th>Prices Inflated at CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread</td>
<td>1913: $0.06 2013: $1.42</td>
<td>1913-2013: $1.42</td>
</tr>
</tbody>
</table>

We build timber forecasts based on knowable, quantifiable relationships.

- That said, should we forecast in nominal or real terms?
- Which indices could be most appropriate if and when deflating timber prices for valuation models?
- How can we better understand longer-term real price trends?
PST Nominal and Inflated Prices
US South – Base Year 1982

Data sources: BLS; Timber Mart-South
PST Deflated (Real) Prices
US South – Base Year 2012

Data sources: BLS; Timber Mart-South
Indexed Pine Chip-n-Saw Forecast
Mississippi – 2012=100

Source: 2013 Mid-Year Forisk Forecast
Recommendations

• Forecast timber prices in nominal terms.
  – Then adjust to real terms if necessary.

• Use PPI or sector specific deflators.
  – But check for outliers and logical consistency in the BLS deflators.

• Digest the effects of technology.
  – Forest productivity and mill efficiencies support real price trends.
About Forisk Consulting

• Forisk provides management consulting and educational services to senior management and investors in the forest industry and timberland investing sectors.

• Founded in 2004.

• Key products:
  – Forisk Forecast
  – Wood Bioenergy US
  – US Timberland Owner List

• Books:
  – Wood for Bioenergy (Forest History Society)
  – Forest Finance Simplified (Forisk Press)